United States Court of Appeals

for the Second Circuit

APPELLEE'S BRIEF

74-1960

United States Court of Appeals
FOR THE SECOND CIRCUIT

STAMICARBON, N.V.,
Plaintiff-Appellant,

-against-

AMERICAN CYANAMID COMPANY,
Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR DEFENDANT-APPELLEE AMERICAN CYANAMID COMPANY

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(HONORABLE CHARLES L. BRIEANT, DISTRICT JUDGE)
DENYING A PRELIMINARY INJUNCTION

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Counter-Statement of the Issue Presented for Review

Did the District Judge abuse his discretion by refusing to issue in this civil action a preliminary injunction requiring the defendant Cyanamid to waive its right to public trial of certain criminal contempt charges against it

—where plaintiff's only interest in seeking to obtain such an injunction is to prevent disclosure of its private trade secrets,

—where the "threatened" disclosure would arise, if at all, from the direct testimony of Government witnesses and Cyanamid's cross-examination of them and not from any evidence proffered by Cyanamid,

—where plaintiff's claim of potential injury is based only on unsupported conclusory allegations,

—where the parties and the Court in the criminal contempt case have assured plaintiff of their cooperation in attempting to guard against unnecessary disclosure of its trade secrets, and

—where plaintiff has been given the right to object at the criminal trial to any evidence offered which it believes might compromise its trade secrets?

Counter-Statement of the Case

Nature of the Case

Plaintiff-appellant ("Stamicarbon") appeals in this civil action from the District Court's denial of its motion for a preliminary injunction requiring defendant-appellee ("Cyanamid") to waive its Sixth Amendment right to a public trial of criminal contempt charges in a proceeding brought by the United States to punish Cyanamid for alleged violation of a 1964 antitrust consent decree. The preliminary injunction sought by Stamicarbon would require waiver of that right to whatever extent Stamicarbon may in its own discretion determine that *in camera* proceedings in the criminal matter are necessary or appropriate to protect the confidentiality of alleged trade secrets which Stamicarbon believes may otherwise be disclosed by the Government's evidence or by Cyanamid's cross-examination of Government witnesses. A court trial of the contempt case had been scheduled to start on July 15, 1974 before the Honorable Charles L. Brieant, before whom Stamicarbon also brought its application for preliminary injunction, but was continued by him for two days to give Stamicarbon an opportunity to seek review of his denial of that application; and thereafter a panel of this Court continued the stay in effect pending decision of this appeal.

Counter-Statement of the Facts

The Antitrust Consent Decree and Related Matters

A 1960 antitrust case brought by the United States against Cyanamid was terminated in 1964 by the entry of a consent decree in the Southern District of New York (3s).[1] The decree, among other things, prohibited Cyanamid from expanding its domestic "production capacity" of the chemical "melamine" beyond thirty million pounds a year, and from producing more than thirty million pounds a year, until November 1, 1974 (6s, 23s),

> . . . or until melamine production capacity in the United States (other than melamine producing capacity of any co-conspirator and of Cyanamid) shall be increased by a total of more than twenty-five (25) million pounds per year over the total of such capacity at [November 1, 1964], but in no event for a period of less than five (5) years . . . . (6s).

On May 27, 1969 the decree was modified by stipulation approved by the Honorable Richard H. Levet to permit Cyanamid to build "a melamine production facility . . having production capacity of seventy (70) million pounds per year . . ." (14s). Although the production limitation was left unchanged at that time, it, too, was modified on consent twice thereafter: on October 10, 1973 to permit production by Cyanamid of forty-four million pounds of melamine in 1973 and on February 13, 1974 to provide that Cyanamid may produce fifty million pounds through October 31st of this year, when the limitation will expire by its own terms. Judge Brieant approved both of those modifications (16s-19s).

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1. Numbers in parentheses refer to pages of the Joint Appendix when followed by the letter "a" and to the "Supplement to Joint Appendix" when followed by "s."

The Criminal Contempt Case

Only a little more than a month after its consent to the February 13, 1974 modification (increasing the production limit to fifty million pounds during the first ten months of this year) the United States filed its Petition to punish Cyanamid for criminal contempt because of its alleged production of more than thirty million pounds of melamine in 1972 (20s-24s).

Since the decree permits Cyanamid to exceed the stated production limit if "melamine production capacity in the United States" should exceed a certain standard (which, as a practical matter, is one hundred and eight million pounds a year), one of the important issues in the trial of the contempt case will be the "melamine production capacity" in 1972 of the plants in this country with which Cyanamid competes (24s-29s). Two of those plants were built by firms licensed by Stamicarbon to use allegedly secret processes and know-how for the manufacture of melamine which Stamicarbon claims to own (3a, 17a, 23a, 31a; Appellant's Brief, p. 10). The Government evidently hopes to establish that those plants cannot operate as they were designed to do—that is, that the "actual" capacity of the plants is less than their designed or contractually-specified capacity—and, assuming *arguendo* the relevance of such proof, Stamicarbon is concerned that its alleged trade secrets will be disclosed in the direct or cross-examination of witnesses called by the Government for that purpose (22a, 27a, 31a; Appellant's Brief, p. 10).

Cyanamid's License from Stamicarbon

Following the 1969 modification of the consent decree which permitted it to build "a melamine production facility" with a capacity of seventy million pounds, Cyanamid constructed a new plant and, in that connection, took a license

to use Stamicarbon's know-how. Article III of the license agreement provides in part that Cyanamid

> . . . shall treat all Stamicarbon Know-How furnished to [Cyanamid] under this agreement as strictly confidential and shall use its reasonably best efforts to prevent disclosure thereof to third parties (6a-7a).

It is Stamicarbon's position that this undertaking obligates Cyanamid to take all steps necessary to prevent disclosure of any information regarded by Stamicarbon as constituting part of its secret know-how, even to the extent of Cyanamid waiving its constitutional right to a public trial (Appellant's Brief, pp. 15, ff.; 5a). Moreover, Stamicarbon goes so far as to insist that Cyanamid must take these extraordinary measures to protect know-how disclosed by Stamicarbon to its *other* licensees, which it expects to be the subject of evidence offered by the Government in the contempt proceeding, since there is as yet no indication that Cyanamid intends to offer direct evidence which would disclose any of the know-how licensed to it.[2]

The Proceedings Below

With trial of the criminal contempt proceeding scheduled to start before Judge Brieant on Monday, July 15, 1974, Stamicarbon filed its civil complaint on Friday, July 12th. In its complaint Stamicarbon alleged that Cyanamid's "refusal or failure to consent" to *in camera* trial of such portions of the contempt proceeding as might involve evidence disclosing Stamicarbon's know-how would be a breach of

2. Stamicarbon asserts that its other licensees "utilize the same Stamicarbon trade secrets licensed to Cyanamid" (Appellant's Brief, p. 12), but there is no factual support for that assertion in the record and Cyanamid has no way of knowing what the facts may be.

Article III of the license agreement. Stamicarbon sought an injunction which would prohibit Cyanamid "from continuing to fail and refuse to consent that such portion of the trial of the aforesaid criminal proceedings as would involve disclosure of such secret know-how be conducted *in camera*. . . ." (2a-5a). At the same time, Stamicarbon filed an affidavit by its New York counsel asserting (presumably on information and belief) that disclosure of Stamicarbon's know-how "would cause permanent and irreparable injury" (8a-10a) and obtained from Judge Brieant an order requiring Cyanamid to show cause at 9:00 A.M. on July 15th why it should not be *enjoined* to "consent" to an *in camera* trial of those parts of the criminal contempt proceeding "as may involve disclosure of information relating to the process for manufacturing melamine which it has licensed from" Stamicarbon (11a-12a).[3]

The Order to Show Cause having been issued at 4:30 P.M. on a Friday before commencement of the criminal case then scheduled for the following Monday, Cyanamid did not respond with affidavits but merely filed a memorandum of law and moved orally to dismiss the complaint for failure to state a claim (40a). Judge Brieant declined to hear that motion, preferring "to take that later on papers if need be" (41a).

During the hearing on Stamicarbon's motion for a preliminary injunction, the District Court, the Government and Cyanamid repeatedly made clear that they would exert every reasonable effort to protect Stamicarbon's alleged trade secrets from unnecessary disclosure and were quite willing to cooperate with Stamicarbon to that end.

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3. As already noted, however, there is no indication in the record that information relating to the know-how received by Cyanamid will be disclosed, but only that received by third parties and perhaps figuring in evidence to be proffered *against* Cyanamid by the United States.

Judge Brieant ruled that Stamicarbon could be present throughout the criminal contempt trial by its counsel and expert engineers, that it would be given the right to object to the offer of any testimonial or documentary evidence which in its view might disclose its secrets, and that it would be fully heard *in camera* on any such objections (15a, 16a, 19a).[4] Moreover, he repeatedly stated his view that the truly secret aspects of Stamicarbon's process should have very little to do with the issues in the criminal contempt case:

> The Court: . . . . My present view of the case is that a question which would actually elicit secret material is irrelevant and outside the scope of the inquiry (32a).

Government counsel stated that he had "purposely structure[d]" the questions he intends to put to his witnesses to avoid disclosure of secret information, although he conceded that he could not guarantee that no such problem would arise (19a).

Cyanamid's position at the hearing on Stamicarbon's motion was, as it is now, that it did not object to the procedure suggested by Judge Brieant which would give Stamicarbon standing as a limited participant in the criminal trial (18a, 28a) and that it had no wish to compromise the secrecy of Stamicarbon's know-how (29a), but that it could not agree in advance to blanket *in camera* treatment of any evidence Stamicarbon might claim disclosed its trade secrets. Cyanamid stated (and continues to believe) that problems presented by Stamicarbon's objections during the criminal trial should be handled "as best seems indicated at that time" (28a). Cyanamid has not at any time stated

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4. Indeed Judge Brieant went so far as to say: "If I believe the objections are taken in good faith it will be my intention and purpose to sustain the objection because I don't believe that it is necessary to go into the way the process operates, or to go into secret aspects of the process, in order to try the case." (29a).

that it would not consent to have some particular item of evidence taken *in camera* if, at the time such evidence were offered and Stamicarbon's objection made and heard, the circumstances then confronting Cyanamid demonstrated that such treatment would be warranted and would not be prejudicial to it. However, just as Judge Brieant was unwilling to "make a ruling in advance" based solely on Stamicarbon's hypothesis that some relevant evidence may disclose the secret know-how (32a), so Cyanamid was unwilling to agree in advance that Stamicarbon should have the deciding voice in determining what portions of the criminal trial are to be conducted *in camera*.

Although Judge Brieant believed the procedure he had suggested would protect Stamicarbon satisfactorily (33a), and pointed out that Stamicarbon might have a more expansive view of what constitutes trade secrets than the facts would warrant (32a), Stamicarbon's counsel was unwilling to accept any procedure which fell short of *ensuring* that evidence claimed by it to include secret information would only be received *in camera* (34a-35a). Confronted with Stamicarbon's inflexibility Judge Brieant balanced Stamicarbon's interest in protection of its trade secrets against Cyanamid's unwillingness to agree to an unqualified relinquishment of its constitutional right to a public trial and denied the preliminary injunction (44a).

ARGUMENT

Cyanamid's constitutional right to a public trial will ordinarily outweigh any competing private interest in secrecy. Since the record here is too sparse to permit a full analysis of the private interests asserted by appellant and since the District Court has ruled that Stamicarbon may participate in the criminal trial to the extent necessary to make that court fully aware of Stamicarbon's interests and their asserted value, this appeal should be dismissed and the criminal trial allowed to proceed.

The respondent in a criminal contempt proceeding is entitled to "all the procedural protections . . . deemed fundamental to our system of justice." *Bloom* v. *Illinois,* 391 U.S. 194, 208 (1968). One of those protections, of course, is the right to a public trial guaranteed by the Sixth Amendment to the Constitution. *See In re Oliver,* 333 U.S. 257, 266-78 (1948).[5] There are also important public policy considerations in having such proceedings conducted openly. *See United States* v. *Consolidated Laundries,* 266 F.2d 941, 942 (2d Cir. 1959); *United States* v. *Lopez,* 328 F.Supp. 1077, 1087-90 (E.D.N.Y. 1971).

While it may be true as Stamicarbon states that "the constitutional right to a public trial is not a limitless imperative", citing *Lacaze* v. *United States,* 391 F.2d 516, 521 (5th Cir. 1968) (Appellant's Brief, p. 28), qualifications to that right have thus far been narrowly stated, and then only in particular instances when necessary to accommodate an overriding public interest. The recognized qualifications

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5. The practical importance to a criminal defendant of the right to a public trial is pointed out by such authorities as 6 Wigmore, Evidence § 1834 (3d Ed. 1940); 1 Cooley, Constitutional Limitations 647 (8th ed. 1972); *see In re* Oliver, *supra,* at 270.

have been confined to excluding from the trial certain individuals or categories of persons, or disruptive groups of spectators, and not by conducting proceedings *in camera*. *United States ex rel. Laws* v. *Yeager*, 448 F.2d 74 (3d Cir. 1971), *cert. denied*, 405 U.S. 976 (1972); *United States ex rel. Bruno* v. *Herold*, 408 F.2d 125 (2d Cir. 1969), *cert. denied*, 397 U.S. 957 (1970); *United States* v. *Kobli*, 172 F.2d 919 (3d Cir. 1949).

Even *pretrial* proceedings in criminal cases have been permitted to be conducted *in camera* over the defendant's objection only where it has been found necessary to protect an extraordinary public interest, such as preserving the confidentiality of skyjacker profiles. *United States* v. *Clark*, 475 F.2d 240 (2d Cir. 1973); *United States* v. *Bell*, 464 F.2d 667 (2d Cir. 1972);[6] *United States* v. *Lopez*, *supra*.

It is therefore clear that an extraordinary showing on Stamicarbon's part would be required to support or justify *any* qualification of Cyanamid's right to a public trial for the purpose of protecting Stamicarbon's private interests—even if one is to indulge the assumption that private interests could *ever* justify such a qualification.[7] And it seems equally clear that neither the present sparse record, nor the speculated (and perhaps hypothetical) possibility of a disclosure of valuable trade secrets, can be said to amount to such a showing at this stage of the proceedings.

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6. Although the record of the suppression hearing in the *Bell* case was stipulated by the parties to be part of the trial record, it was not considered part of the trial by the Court of Appeals. 464 F.2d at 671.

7. Stamicarbon's heavy reliance on Rule 508 of the Proposed Federal Rules of Evidence, 56 F.R.D. 183, 249 (November 20, 1972) to create a statutory trade secret privilege (Appellant's Brief, pp. 27-28) is misplaced, since that section was removed from the proposed rules by the House of Representatives. H.R. 5463, 93d Cong., 2d Sess., *as approved and sent to the Senate* (February 7, 1974).

The entire record of the proceedings below consists of Stamicarbon's verified complaint (2a-7a), its counsel's affidavit in support of the motion for preliminary injunction (8a-10a), the Order to Show Cause (11a-12a), a transcript of the argument of that motion before Judge Brieant (13a-46a) and the Notice of Appeal (47a). That is scarcely the stuff out of which decisions of constitutional magnitude can be fashioned. *Alabama State Federation of Labor* v. *McAdory,* 325 U.S. 450, 461-62 (1945).

Instead, Stamicarbon offers two arguments which we respectfully submit are no more than makeweights.

Article III of the license agreement between the parties to this action has no real bearing on the issue, since it obligates Cyanmid only to preserve the confidentiality of know-how furnished to it, while Stamicarbon's professed concern is that the direct or cross-examination of third-party witnesses called by the Government may occasion disclosure of know-how furnished to *other* licensees. Moreover, that article can hardly be read as "an intentional relinquishment" or a voluntary, knowing and intelligent waiver of a constitutional right of which Cyanamid became possessed as a defendant in a criminal proceeding commenced almost four years after the license agreement was signed. *Brady* v. *United States,* 397 U.S. 742, 748 (1970); *Fay* v. *Noia,* 372 U.S. 391, 438-40 (1963); *Johnson* v. *Zerbst,* 304 U.S. 458, 464 (1938).[8]

Nor does Cyanamid's consent to a pretrial order in the criminal contempt case obligating it to receive and treat in

8. Cyanamid is not necessarily asserting that it has a constitutional right to take affirmative action to disclose Stamicarbon's trade secrets, but merely that it has a right to all of the Constitutional guarantees in defending itself in the criminal proceeding. It is the Government and Stamicarbon's other licensees (as Government witnesses) who threaten to force such disclosure. For that reason, among others, *United States* v. *Marchetti,* 466 F.2d 1309 (4th Cir.), *cert. denied* 409 U.S. 1063 (1972), discussed extensively in Appellant's Brief (pp. 21-22), is wholly inapposite.

confidence, "subject to further order by the Court," a certain study of melamine plant capacity possessed by the United States have any relevance whatever to the issue presented by this appeal. There is nothing in the record elaborating the background of that order, and it certainly does not require *in camera* treatment of any evidence.

The ultimate weakness as a practical matter in Stamicarbon's position is that Stamicarbon has asked for too much and, in doing so, has gone far beyond any relief warranted by the presently available facts in seeking to force a constitutional confrontation on a hypothetical basis.[9] This Court should decline Stamicarbon's unsupported request for extraordinary relief and permit the judicial process to run its normal course in the District Court, requiring concrete evidence and an adequate record as prerequisites to a determination that this controversy is justiciable at all. Otherwise, the Court's opinion will be no more than advisory in nature. *See O'Shea* v. *Littleton,* 414 U.S. 488, 493-94 (1974); *United Public Workers* v. *Mitchell,* 330 U.S. 75, 89 (1947); *Aetna Life Insurance Co.* v. *Haworth,* 300 U.S. 227, 240-41, (1937). The factual support for Stamicarbon's prayer for preliminary injunctive relief is wholly inadequate and the injunction was properly denied because the 'injury' complained of is, at best, prospective, and, indeed, may never occur. *Crimmins* v. *American Stock Exchange, Inc.,* 346 F. Supp. 1256, 1262 (S.D.N.Y. 1972).

Both parties to the criminal contempt proceeding, as well as the District Judge to whom the case will be tried, have assured Stamicarbon that they will make every effort to

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9. Responding to several unsuccessful efforts by Stamicarbon's counsel to explain the relevance of its trade secrets and know-how Judge Brieant said: "I think we are in a hypothetical area. . . .[Y]ou are asking me to hypothesize something which on the present record I am unwilling to assume." (33a-34a).

avoid disclosure of its legitimate trade secrets, and the District Judge has repeatedly emphasized his skepticism that evidence of such secrets would be relevant at all. He has found that the "suggested procedure which the Court has imposed and which the defendant has not objected to protects [Stamicarbon] satisfactorily" (33a) by permitting it a limited participation in the criminal trial to safeguard its secrets by objecting to any evidence which it believes might compromise them.

Thus, the differences between the parties essentially narrow themselves to Stamicarbon's insistence that it be given *carte blanche* in advance to force *in camera* treatment in the criminal case (to which it is not even a party) of *any* evidence it considers to be in the nature of a trade secret[10] and Cyanamid's insistence that each such problem be dealt with on its own facts as it may arise in the course of trial.

Under the circumstances, Judge Brieant was thoroughly justified in exercising his discretion to deny Stamicarbon's motion for a preliminary injunction. *See Columbia Pictures Industries, Inc.* v. *American Broadcasting Companies, Inc.*,——F.2d——, Docket No. 74-1172 (Slip opinion at 4569) (2d Cir., July 3, 1974); *Stark* v. *New York Stock Exchange, Inc.*, 466 F.2d 743 (2d Cir. 1972). Conclusory and unsupported allegations of irreparable injury are not enough to justify the grant of a preliminary injunction, especially in this case where the events feared by Stamicarbon are remote and speculative. *Eastin-Phelan Corp.* v. *Hal Roach Studios, Inc.*, 350 F.Supp. 1328, 1331 (S.D.N.Y. 1972); *Roy Export Co. Establishment* v. *Trustees of Columbia University*, 344 F.Supp. 1350, 1353 (S.D.N.Y. 1972).

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10. Some inkling of the expansive nature of Stamicarbon's view of what is secret may be derived from the deletions it made from the sealed portion of the transcript below before including it in the Joint Appendix (See, 24a-25a, 29a).

Conclusion

For the reasons stated above, Stamicarbon's appeal should be dismissed and the case remanded to the District Court.

Dated: New York, New York
August 28, 1974

Respectfully submitted,

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